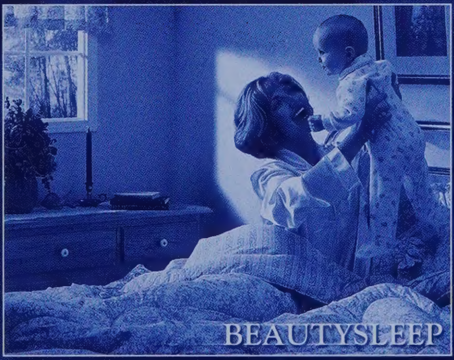
SIMMONS



SCI Income Trust
2001 Annual Report

SCI Income Trust
Annual General Meeting

Thursday, May 23, 2002 @ 10:00 am
The Simmons Showroom
Suite 107, Toronto International Centre
6900 Airport Road, Mississauga, Ontario

SCI Income Trust

Contents

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SCI Income Trust

Report to the Unitholders

2001 was a difficult year for Simmons Canada. Numerous operational interruptions negatively affected results, including the lockout of our Quebec plant during the first quarter, the Calgary plant expansion and related start up challenges during the first half of the year and the mid-year implementation of new manufacturing computer software. Added to these difficulties was the significant reduction in consumer participation in our product offerings after September 11th, which impacted on our 4th quarter. These one-time events are behind us and management looks forward to an improved 2002.

The major Canadian furniture market takes place each year in January in Toronto. We are pleased to report the attendance at our showroom was the highest in 4 years and their mood was one of optimism for 2002. Our retailers reported that their inventories were at satisfactory levels. They placed orders for our 2002 product line, in many cases increasing the number of Simmons products on their sales floors. It is important to note that the more of our beds retailers display, the more of our product they tend to sell. We are constantly reminded that our customers can display more Simmons floor samples because they don't have to carry a lot of inventory due to our just in time delivery programme, which is reputed to be the best in the industry nationwide. The January Canadian furniture market results serve to reinforce management's favourable outlook for 2002.

During 2001, we successfully concluded negotiations to license our upholstery operations to a new unrelated entity carrying on business as Simmons Upholstery Canada effective January 1, 2002. The licensee will be responsible for manufacturing, marketing and distributing all Simmons branded upholstery products exclusively to retailers in Canada. Simmons Canada will continue to market the Simmons upholstery products to customers in the hospitality and healthcare industry.

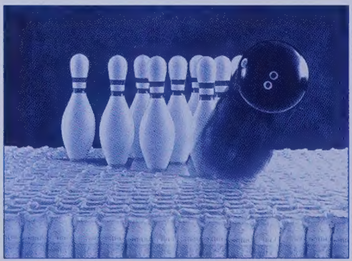
SCI Income Trust

Our internationally known Simmons brand name bedding products ***Beautyrest, BackCare*** and ***Beautysleep*** continue as our flagship products. The Simmons ***Non-Flip*** bedding products we introduced in 2000 continue to sell very well with consumers being delighted at not having to flip their mattresses. As a result, the Simmons ***Non-Flip*** product line was expanded for 2002.

The ***BackCare*** line, which was completely re-engineered in the fall of 2001, received rave reviews from our customers on introduction and again at the recent January Canadian furniture market. The entire ***BackCare*** line is manufactured as ***Non-Flip*** product and has new and unique inner spring systems exclusive to Simmons Canada.

The private label products we manufacture for Sears and Ikea continue to be a success, as does the ***ObusForme*** line of sleep sets we manufacture and distribute under license. We are continuing our pursuit of other viable licensee opportunities.

The independently owned and operated Simmons Mattress Galleries and Simmons Sleep Centres are a growing success story. In fact, their aggregate sales place them amongst our top 10 customers. We will continue with our plan of controlled expansion of these outlets.



We continuously update our website ***www.simmonscanada.com*** and encourage our customers, consumers and unitholders to make use of it. At the Simmons International licensee meeting in May 2001, we were awarded the trophy for the best Simmons website amongst the world wide Simmons licensees. These licensees represent over 100 countries globally.

2002 is the one hundred and eleventh anniversary of Simmons in Canada and our unitholders can be assured that the employees and management are working diligently to deliver superior results.

On July 1, 2001, P.S. (Pat) Thody, was appointed Chairman and Chief Executive Officer and T.H. (Terry) Pace was appointed President and Chief Operating Officer. Further, it was announced on November 1, 2001, that effective June 1, 2002, Mr. Pace will succeed Mr. Thody who retires at the end of May 2002, after 30 years with Simmons Canada. Mr. Pace joined Simmons as General Manager of the Ontario division, in Brampton in 1985. In 1987, he became Director of Manufacturing and Engineering and in 1988 was promoted to Vice-President.

In closing, we thank our customers, suppliers, employees, management, Board of Directors and our unitholders for their support in 2001 and we anticipate a rewarding future together.

Pat Thody

P.S. Thody

Chairman and Chief Executive Officer
Simmons Canada Inc.

T.H. Pace

T.H. Pace

President and Chief Operating Officer
Simmons Canada Inc.

SCI Income Trust

Management's Discussion and Analysis

This discussion should be read in conjunction with the consolidated financial statements and accompanying notes presented herein. These statements report the results for SCI Income Trust (the "Trust") for the years ended December 31, 2001 and 2000. The results for the Trust are dependent entirely on the operations of its wholly-owned subsidiary, Simmons Canada Inc. ("Simmons"). Operating results for the Trust are effectively those of Simmons for the years ended December 31, 2001 and 2000.

Revenue, Gross Profit and Net Income

Revenue of $120,135,000 for the year ended December 31, 2001 was 2% less than revenue for 2000 of $122,452,000. Revenue for the fourth quarter was 15% less than for the fourth quarter of 2000, a decline that more than offset the 2 1/2% revenue growth achieved in the first three quarters. (See table on the following page.) This significant late year decline reflected a post September 11 fall off in bedding sales.

Gross profit for 2001 of $32,937,000 was $5,510,000 less than gross profit for 2000. In addition to reductions attributable to the reduced revenue for the year, the lower gross profit reflected some unusual costs incurred during 2001. A labour lockout in the Kirkland Quebec plant resulted in increased costs at that plant for the temporary closure as well as added overhead, overtime and delivery costs at other plants that continued to service our Eastern Canada customers. These costs, together with back to work activity costs at the end of the lockout, reduced gross profit by approximately $2,500,000. The expansion of the Calgary plant at the end of 2000 required a 50% increase in employees and related training during 2001 to achieve efficient production to meet the needs of the marketplace previously serviced by the Winnipeg plant, which was closed in November 2000. The costs associated with the Calgary expansion reduced gross profit further by approximately $1,000,000.

Selling, general and administrative expenses decreased by $821,000 in 2001. Most of these savings are attributable to the distributable cash flow incentive of $673,000 paid to management in 2000 as a result of distributions paid to unitholders exceeding $1.20 per unit. No such incentive was paid in 2001.

Increased interest on bank loans and increased amortization of plant and equipment added to increased expenses for the year and resulted from added working capital requirements and computer software amortization during 2001.

The restructuring and closure costs of $461,000 in 2001 and $541,000 in 2000 are explained in note 12 to the consolidated financial statements.

The above-described changes in revenue, expenses and other items resulted in net income for 2001 of $6,583,000 ($0.859 per unit), a decrease of $3,319,000 ($0.435 per unit) compared to 2000.

Distributions to Unitholders

Distributions to unitholders and the basis of their determination are detailed in note 10 to the consolidated financial statements. Total distributions to unitholders for 2001 were $7,820,000 ($1.020 per unit), compared to $11,865,000 ($1.550 per unit) for 2000. The decrease in distributions of $4,045,000 was primarily the result of the $3,319,000 reduction in net income and increased capital expenditure related payments detailed on the following page. The taxable income amount of distributions to unitholders was $0.679 per unit for 2001 compared to $0.682 for 2000. Other amounts distributed in both years were non-taxable returns of capital. Management estimates that the return of capital on the common shares of Simmons held by the Trust will be completed during 2002 with the result that dividend income will start to replace the non-taxable return of capital portion of distributions to unitholders.

SCI Income Trust

Management's Discussion and Analysis

Capital Expenditure Related Payments

Capital expenditure related payments for 2001 of $2,987,000 shown in note 10 to the consolidated financial statements were $916,000 greater than 2000 primarily because 2000 included a $641,000 credit primarily for the sale of the Winnipeg plant in December 2000. Included in these payments were instalment payments totalling $316,000 ($9,000 in 2000) on the $1,500,000 demand instalment loan payable evenly over five years obtained in 2000 to fund the Calgary expansion.

Liquidity

Working capital at December 31, 2001 of $11,647,000 was marginally higher than at December 31, 2000. Decreases in accounts receivable and inventory were in line with revenue decreases and were offset by reduced accounts payable and accrued liabilities. Short-term investments of $527,000 at December 31, 2001 held in anticipation of future distributions were lower than the $3,838,000 held at the end of 2000, but were in line with the reduced distributions payable to unitholders.

Cash flow for the year resulted in a $3,837,000 reduction in cash and cash equivalents. This reduction reflected the $3,319,000 decrease in net income, the $916,000 increase in capital expenditure related payments and the $563,000 decrease in distributions to unitholders in 2001.

Quarterly Financial Highlights

			2001		
	Q1	Q2	Q3	Q4	Total Year
Revenue	$ 26,950	$ 30,933	$ 35,087	$ 27,165	$ 120,135
Net Income	1,260	1,762	2,730	831	6,583
Net income per unit – basic	$ 0.165	$ 0.230	$ 0.356	$ 0.108	$ 0.859
– fully diluted	0.164	0.229	0.354	0.108	0.855
Cash distributions per unit – basic	$ 0.325	$ 0.325	$ 0.300	$ 0.070	$ 1.020
– fully diluted	0.324	0.323	0.298	0.070	1.015
			2000		
	Q1	Q2	Q3	Q4	Total Year
Revenue	$ 25,469	$ 30,168	$ 34,978	$ 31,837	$ 122,452
Net Income	1,818	2,445	3,763	1,876	9,902
Net income per unit – basic	$ 0.237	$ 0.319	$ 0.492	$ 0.246	$ 1.294
– fully diluted	0.237	0.319	0.492	0.246	1.294
Cash distributions per unit – basic	$ 0.325	$ 0.325	$ 0.425	$ 0.475	$ 1.550
– fully diluted	0.325	0.325	0.425	0.475	1.550

SIMMONS

Management's Report to the Unitholders of SCI Income Trust

Management of Simmons Canada Inc., as administrator of SCI Income Trust, is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and other information in the annual report. The consolidated financial statements have been prepared using generally accepted accounting principles in Canada including, where applicable, amounts based on management's best estimates. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from these estimates. Financial information elsewhere in this annual report is consistent with that in the consolidated financial statements.

Simmons Canada Inc. maintains a system of internal controls designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial information is presented on a timely basis, is relevant and reliable.

The board of directors of Simmons Canada Inc. is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The board of directors carries out its responsibility principally through its audit committee.

The audit committee, consisting of non-management directors, is appointed by the board of directors. The audit committee has reviewed the consolidated financial statements with management and the auditors and has recommended their approval by the board of directors.

KPMG LLP, an independent firm of Chartered Accountants appointed by the board of directors, has examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards and its report is included herein. KPMG LLP has full and free access to the audit committee.

Pat Thody

Patrick S. Thody
Chairman and Chief Executive Officer
Simmons Canada Inc.

Brian M. Anderson
Senior Vice-President and Chief Financial Officer
Simmons Canada Inc.

Auditors' Report to the Unitholders of SCI Income Trust

We have audited the consolidated balance sheets of SCI Income Trust as at December 31, 2001 and 2000 and the consolidated statements of income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
February 15, 2002

Consolidated Balance Sheets

December 31, 2001 and 2000 *(In thousands of dollars)*

	2001	2000
Assets		
Current assets:		
Short-term investments (note 2)	$ 527	$ 3,838
Accounts receivable	19,574	20,158
Income taxes recoverable	631	–
Inventories (note 3)	5,354	6,716
Prepaid expenses	1,884	1,779
	27,970	32,491
Long-term accounts receivable (note 4)	333	546
Property, plant and equipment (note 5)	17,301	17,458
Employee future benefits (note 6)	395	306
Deferred finance charges	2,190	2,275
Goodwill	39,357	40,457
	$ 87,546	$ 93,533
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank overdraft (note 2)	$ 1,272	$ 746
Bank indebtedness (note 7)	2,887	3,041
Demand instalment loan (note 7)	1,175	1,491
Accounts payable and accrued liabilities	10,452	12,161
Income taxes payable	–	281
Distributions payable to unitholders (note 10)	537	3,636
	16,323	21,356
Capital lease obligations (note 11)	2,807	3,360
Future income taxes (note 8)	4,494	3,803
Unitholders' equity	63,922	65,014
Commitments and contingencies (notes 11 and 13)		
	$ 87,546	$ 93,533

See accompanying notes to consolidated financial statements.

Approved on behalf of SCI Income Trust by its attorney,
Simmons Canada Inc.:

Randall G. Provost
Director and Chairman of the Audit Committee
Simmons Canada Inc.

Brian M. Anderson
Senior Vice-President, Chief Financial Officer and Director
Simmons Canada Inc.

Consolidated Statements of Income

Years ended December 31, 2001 and 2000 *(In thousands of dollars, except per unit information)*

	2001	2000
Revenue	$ 120,135	$ 122,452
Cost of products sold	87,198	84,005
	32,937	38,447
Expenses:		
Selling, general and administrative	20,944	21,765
Interest	561	257
Interest on capital leases	392	411
Amortization:		
Plant and equipment	2,310	1,984
Deferred finance charges	85	85
Goodwill	1,100	1,100
	25,392	25,602
Income before the undernoted	7,545	12,845
Restructuring and closure costs (note 12)	461	541
Income before income taxes	7,084	12,304
Income taxes (recovery) (note 8):		
Current	(190)	1,430
Future	691	972
	501	2,402
Net income	$ 6,583	$ 9,902
Net income per unit:		
Basic	$ 0.859	$ 1.294
Fully diluted	0.855	1.294

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

Years ended December 31, 2001 and 2000 *(In thousands of dollars)*

	2001	2000
Balance, beginning of year	$ 65,014	$ 66,977
Issuance of trust units (note 9)	145	–
Net income	6,583	9,902
Distributions to unitholders (note 10)	(7,820)	(11,865)
Balance, end of year	$ 63,922	$ 65,014

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000 *(In thousands of dollars)*

	2001	2000
Cash provided by (used in):		
Operating activities:		
Net income	$ 6,583	$ 9,902
Amounts not affecting cash:		
Amortization:		
Plant and equipment	2,310	1,984
Deferred finance charges	85	85
Goodwill	1,100	1,100
Loss on sale of property, plant and equipment	42	335
Difference between employee future benefit expense and amount funded	(89)	(208)
Future income taxes	691	972
	10,722	14,170
Change in non-cash operating working capital	(644)	(3,717)
	10,078	10,453
Financing activities:		
Issuance of trust units	145	–
Distributions to unitholders	(10,919)	(11,482)
Increase (decrease) in bank indebtedness	(154)	3,041
Increase in demand instalment loan	–	1,500
Repayment of demand instalment loan	(316)	(9)
Repayment of capital lease obligations	(1,528)	(1,114)
	(12,772)	(8,064)
Investing activities:		
Purchase of property, plant and equipment	(1,147)	(3,089)
Proceeds from sale of property, plant and equipment	4	641
	(1,143)	(2,448)
Decrease in cash and cash equivalents	(3,837)	(59)
Cash and cash equivalents, beginning of year	3,092	3,151
Cash and cash equivalents, end of year (note 2)	$ (745)	$ 3,092
Supplemental cash flow information:		
Interest paid	$ 591	$ 228
Income taxes paid	989	2,190
Dividends and interest received	82	117
Non-cash investing and financing activities:		
Acquisition of property, plant and equipment through capital leases	1,052	1,340

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 *(Tabular amounts in thousands of dollars, except per unit information)*

SCI Income Trust (the "Trust") is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust as of August 22, 1997, as amended and restated as of October 2, 1997 and as further amended on May 21, 1998. An unlimited number of trust units may be issued pursuant to the Declaration of Trust. The Trust qualifies as a mutual fund trust for the purposes of the Income Tax Act.

The Trust was created to invest in securities of Simmons Canada Inc. ("Simmons"). The Trust holds all the outstanding common shares of Simmons and $50,000,000 principal amount of 12% unsecured subordinated notes of Simmons.

Simmons, which acts as Administrator of the Trust, operates within Canada in the manufacture and sale of mattresses, upholstery and furniture, which is its only line of business.

1. **Significant accounting policies:**

The consolidated financial statements of the Trust have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(a) Basis of presentation:

The consolidated financial statements of the Trust include the accounts of Simmons, its wholly owned subsidiary. All inter-entity transactions have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, bank balances (overdraft) and short-term investments with an original maturity of three months or less.

Short-term investments are carried at cost plus accrued interest.

(c) Inventories:

Raw materials and spare parts are carried at the lower of cost and replacement cost. Finished goods and work in process are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(d) Property, plant and equipment:

Property, plant and equipment are stated at cost. Amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	30 years
Machinery and equipment	1 – 15 years
Machinery and equipment under capital leases	5 – 15 years
Leasehold improvements	Over life of lease

Assets under development are not amortized until the assets are available for use.

(e) Employee future benefits:

Simmons administers a registered combined non-contributory defined benefit and defined contribution pension plan for substantially all of its full-time employees. Under the registered defined benefit plan segment, benefits are based upon earnings and years of credited service. Simmons also sponsors a retirement compensation arrangement ("RCA") for certain senior officials. The RCA provides benefits in addition to the Simmons pension plan.

No retirement benefits other than pensions are provided to employees. Certain health care and other benefits are provided to employees on leave, the costs of which are not significant and are recognized as expenses as they are incurred.

Simmons accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension benefits. Simmons has adopted the following policies:

(i) The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages.

(ii) For the purpose of calculating expected return on plan assets, those assets are valued at fair values.

(iii) The initial net transition asset and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at January 1, 1999 and at the date of the amendment, respectively.

(iv) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, which for the registered defined benefit plan segment is 16 years and for the RCA is 10 years.

(v) When an event gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(f) Deferred finance charges:

Deferred finance charges are costs incurred by Simmons for arranging and issuing, to the Trust, 12% unsecured subordinated notes. Deferred finance charges are amortized over the term of the notes, being 30 years. Accumulated amortization as at December 31, 2001 is $357,000 (2000 - $272,000).

1. **Significant accounting policies (continued):**

(g) Goodwill:

Goodwill is recorded at cost less accumulated amortization of $4,620,000 as at December 31, 2001 (2000 - $3,520,000). Goodwill, which represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed, is amortized on a straight-line basis over 40 years. The net carrying amount of goodwill would be written down if the value were permanently impaired. The Trust assesses impairment by determining whether the unamortized goodwill balance can be recovered through undiscounted future operating cash flows of the acquired operation over its remaining life.

In July 2001, The Canadian Institute of Chartered Accountants ("CICA") issued new accounting standards for "Goodwill and Other Intangible Assets". These standards require that goodwill and certain other intangible assets will no longer be amortized and will be tested for impairment at least annually and written down only when impaired. These standards will apply to existing goodwill and intangible assets, and must be adopted by the Trust for its fiscal year beginning January 1, 2002. The Trust has determined that the initial adoption of these standards will not impact the carrying value of goodwill on its consolidated financial statements.

(h) Income taxes:

Simmons uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

(i) Trust Unit Option Plan:

Simmons has the ability to grant options to directors, officers and employees of Simmons under the Trust Unit Option Plan (the "Option Plan") (note 9(b)). No compensation expense is recognized when options are issued to these individuals. Any consideration paid to the Trust on exercise of options is credited to unitholders' equity on the consolidated balance sheet.

In December 2001, the CICA issued new accounting standards for "Stock-Based Compensation and Other Stock-Based Payments" which establishes new standards for recognition, measurement and disclosure of stock-based compensation and other stock-based payments made to employees and non-employees in exchange for goods and services. The Trust must adopt the new standards for its fiscal year beginning January 1, 2002. The new standards will allow the Trust to account for the Option Plan which provides "exempt awards to employees" using the settlement method currently applied. The Trust has determined that the adoption of the new standards will not impact its consolidated financial statements, except for certain additional disclosures.

(j) Foreign exchange translation:

Monetary items denominated in a foreign currency are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary items are translated at the rate of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at the rate in effect at the time of the transaction. Foreign exchange gains and losses are included in income.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(l) Comparative figures:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

2. **Cash and cash equivalents:**

The major components of cash and cash equivalents are as follows:

	2001	2000
Short-term investments	$ 527	$ 3,838
Bank overdraft	(1,272)	(746)
	$ (745)	$ 3,092

Short-term investments consist of bankers' acceptances, maturing up to January 15, 2002, and earning interest at an average rate of 2.93% (2000 - 5.70%).

3. **Inventories:**

	2001	2000
Raw materials	$ 3,164	$ 3,665
Work in process	269	682
Finished goods	1,038	1,503
Spare parts	883	866
	$ 5,354	$ 6,716

4. **Long-term accounts receivable:**

	2001	2000
Long-term accounts receivable	$ 1,744	$ 2,552
Less current portion	1,411	2,006
	$ 333	$ 546

Long-term accounts receivable are instalment payments under conditional sales agreements made with hotel property owners. The amounts receivable are due at various dates up to February 2004 and bear interest at the chartered bank's prime rate plus 2% to 3%. The agreements are registered for security purposes in each province under the respective Personal Property Security Acts.

5. **Property, plant and equipment:**

2001	Cost	Accumulated amortization	Net book value
Land and buildings	$ 6,267	$ 821	$ 5,446
Machinery and equipment	9,295	3,922	5,373
Machinery and equipment under capital leases	8,610	2,554	6,056
Leasehold improvements	555	129	426
	$ 24,727	$ 7,426	$ 17,301

2000	Cost	Accumulated amortization	Net book value
Land and buildings	$ 6,231	$ 575	$ 5,656
Machinery and equipment	8,415	2,943	5,472
Machinery and equipment under capital leases	7,517	1,569	5,948
Leasehold improvements	477	95	382
	$ 22,640	$ 5,182	$ 17,458

Included in machinery and equipment and machinery and equipment under capital leases is $118,000 (2000 - $2,064,000) of assets under development. These assets are not yet available for use and are not being amortized.

6. **Employee future benefits:**

Information about Simmons' pension benefit plans is as follows:

Pension benefit plans	2001	2000
Accrued benefit obligation:		
Balance, beginning of year	$ 12,777	$ 11,017
Current service cost	586	539
Interest cost	888	820
Benefits paid	(761)	(761)
Actuarial losses	773	832
Plan amendments	–	435
Plan curtailment	–	(105)
Balance, end of year	$ 14,263	$ 12,777

6. **Employee future benefits (continued):**

Pension benefit plans	2001	2000
Plan assets:		
Fair value, beginning of year	$ 16,493	$ 15,618
Annual return on plan assets	(723)	1,408
Employer contributions, net	228	228
Benefits paid	(761)	(761)
Fair value, end of year	$ 15,237	$ 16,493
Funded status – surplus	$ 974	$ 3,716
Unamortized net accumulated experience loss (gain)	1,411	(1,284)
Unamortized past service costs	495	530
Unamortized transitional asset, net	(2,485)	(2,656)
Accrued benefit asset	$ 395	$ 306

As at December 31, 2001, the registered defined benefit plan segment had an accrued benefit obligation of $183,000 (2000 - $62,000).

The significant actuarial assumptions adopted in measuring Simmons' accrued benefit obligations are as follows (weighted average assumptions as of December 31):

Pension benefit plans	2001	2000
Discount rate	6.5%	7.0%
Expected long-term rate of return on plan assets	7.0%	7.1%
Rate of compensation increase	3.6%	3.6%

Simmons' net benefit plan expense is as follows:

Pension benefit plans	2001	2000
Current service cost	$ 586	$ 539
Interest cost	888	820
Expected return on plan assets	(1,141)	(1,089)
Amortization of past service costs	35	43
Amortization of transitional asset, net	(171)	(171)
Amortization of experience gains	–	(17)
Curtailment gain	–	(105)
Net benefit plan expense	$ 197	$ 20

As a result of the closure of the Prairie division (note 12), Simmons recognized a curtailment gain relating to the registered defined benefit plan segment in 2000.

Simmons' registered defined contribution plan segment expense for 2001 is $124,000 (2000 - $124,000).

7. **Credit facility:**

	2001	2000
Operating line	$ 2,887	$ 3,041
Demand instalment loan	1,175	1,491
	$ 4,062	$ 4,532

Simmons has a credit facility with a major Canadian chartered bank consisting of a $15 million operating line (2000 - $12.5 million) and a $1.3 million demand instalment loan (2000 - $1.5 million). The operating line bears interest at the chartered bank's prime rate plus 1/2% per year and the demand instalment loan bears interest at the prime rate plus 3/4% per year. The credit facility is secured by substantially all of the assets of Simmons.

Simmons has drawn on the operating line during the year and as at December 31, 2001, $2,887,000 (2000 - $3,041,000) is outstanding. During the year, interest of $471,000 (2000 - $203,000) was incurred on the operating line.

7. **Credit facility (continued):**

Simmons fully utilized its demand instalment loan during 2000 and as at December 31, 2001, $1,175,000 (2000 - $1,491,000) is outstanding. The demand instalment loan is payable in monthly instalments of $25,000. Interest on the demand instalment loan amounted to $90,000 during the year (2000 - $55,000).

8. **Income taxes:**

The Trust is not taxable on any income that is distributed to unitholders. Simmons is taxable on its income at Canadian statutory tax rates.

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	2001	2000
Canadian statutory tax rate	41.1%	42.7%
Income before income taxes	$ 7,084	$ 12,304
Computed income taxes	$ 2,912	$ 5,254
Increase (decrease) resulting from:		
Income distributed to unitholders not subject to tax in the Trust	(2,397)	(2,497)
Manufacturing and processing profits deduction and rate reduction	(84)	(408)
Amortization of non-deductible goodwill and other non-deductible expenses	201	202
Large Corporations Tax	150	83
Other	(281)	(232)
Income tax expense	$ 501	$ 2,402
Consisting of:		
Current	$ (190)	$ 1,430
Future	691	972
	$ 501	$ 2,402

The components of future income taxes, which are the result of temporary differences between the carrying values and the tax values of assets and liabilities, are as follows:

	2001	2000
Future income tax asset:		
Accounts payable and accrued liabilities	$ 28	$ 57
Future income tax liability:		
Accounts receivable	137	111
Property, plant and equipment	1,552	1,091
Employee future benefits	127	110
Deferred finance charges	574	489
Goodwill	2,132	2,059
	4,522	3,860
Future income tax liability, net	$ 4,494	$ 3,803

9. Trust units:

(a) Authorized:

Unlimited trust units

Issued:

	Units	Amount
Balance, December 31, 1999 and 2000	7,655,000	$ 71,682
Issuance of trust units on exercise of options	15,000	145
Balance, December 31, 2001	7,670,000	$ 71,827

All trust units share equally in all distributions from the Trust and carry equal voting rights. No conversion, retraction or pre-emptive rights are attached to the trust units.

(b) On May 21, 1998, the unitholders approved the Option Plan. The Option Plan is administered by the Compensation Committee of the Board of Directors of Simmons in its capacity as Administrator of the Trust. Under the Option Plan, options to acquire up to 765,500 trust units may be granted to directors, officers and employees at a price equal to the closing market value of the trust units on the preceding day upon which the options are granted. One-third of the options granted may be exercised at any time subsequent to each of the first, second and third anniversaries of the grant date. Immediate vesting of all options granted is deemed to have occurred immediately prior to the occurrence of a change in control of the Trust, as defined in the Option Plan. The options expire within seven years of the grant date. As at December 31, 2001, 342,500 (2000 - 330,500) options are available to be granted.

The following summarizes the options outstanding:

	2001		2000	
	Number of options and units	Weighted average exercise price per unit	Number of options and units	Weighted average exercise price per unit
Outstanding, beginning of year	435,000	$ 10.11	299,000	$ 9.96
Granted	–	–	148,000	10.35
Exercised	(15,000)	(9.69)	–	–
Expired	(12,000)	(10.21)	(12,000)	(9.50)
Outstanding, end of year	408,000	10.12	435,000	10.11
Options exercisable, end of year	264,667	$ 9.98	142,667	$ 9.82

These options will expire between November 16, 2005 and October 26, 2007.

10. Distributions to unitholders:

The Trust makes quarterly distributions to unitholders of record as of the last day of each calendar quarter. Distributable cash of the Trust is equal to interest, dividends and repayments of capital from Simmons, less expenses of the Trust.

Distributions to Trust unitholders are calculated and recorded on an accrual basis. Distributions for the year ended December 31, 2001 are as follows:

Declaration date of quarterly distribution	Payment date	Amount per unit	Total
March 1, 2001	April 12, 2001	$ 0.325	$ 2,490
June 19, 2001	July 13, 2001	0.325	2,492
September 17, 2001	October 15, 2001	0.300	2,301
December 13, 2001	January 15, 2002	0.070	537
		$ 1.020	$ 7,820

10. Distributions to unitholders (continued):

Distributions for the year ended December 31, 2000 are as follows:

Declaration date of quarterly distribution	Payment date	Amount per unit	Total
March 3, 2000	April 14, 2000	$ 0.325	$ 2,488
June 20, 2000	July 14, 2000	0.325	2,488
September 20, 2000	October 13, 2000	0.425	3,253
December 14, 2000	January 15, 2001	0.475	3,636
		$ 1.550	$ 11,865

Simmons distributes its available cash to the Trust based on cash provided by its operations, less capital expenditures, working capital reserves and other amounts considered advisable by the Board of Directors of Simmons.

Cash distributions for the years ended December 31, 2001 and 2000 were determined as follows:

	2001	2000
Net income	$ 6,583	$ 9,902
Amounts not affecting cash:		
Amortization:		
Plant and equipment	2,310	1,984
Deferred finance charges	85	85
Goodwill	1,100	1,100
Loss on sale of property, plant and equipment	42	335
Difference between employee future benefit expense and amount funded	(89)	(208)
Future income taxes	691	972
	10,722	14,170
Capital expenditure related payments	(2,987)	(2,071)
	7,735	12,099
Decrease (increase) in working capital reserve	85	(234)
Cash distributions	$ 7,820	$ 11,865
Cash distributions per unit:		
Basic	$ 1.020	$ 1.550
Fully diluted	1.015	1.550

11. Commitments:

Simmons leases various facilities and equipment. Future minimum payments, by fiscal year and in aggregate, under these non-cancellable leases are as follows:

(a) Capital leases:

Year ending December 31:	
2002	$ 1,784
2003	1,568
2004	1,040
2005	324
2006	184
Total minimum lease payments	4,900
Less amounts representing interest at rates between 6.8% and 9.8%	615
Present value of net minimum lease payments	4,285
Less current portion included in accounts payable and accrued liabilities	1,478
	$ 2,807

11. Commitments (continued):

(b) Operating leases:

Year ending December 31:	
2002	$ 2,357
2003	2,206
2004	2,064
2005	2,102
2006	1,977
Thereafter	12,752
Total minimum lease payments	$ 23,458

12. Restructuring and closure costs:

In October 2001, Simmons entered into a licensing agreement effective January 1, 2002 with 1499324 Ontario Ltd., a third party carrying on business as Simmons Upholstery Canada, whereby Simmons Upholstery Canada will manufacture and sell upholstery products under Simmons' trademarks in exchange for royalty fees. The upholstery division of Simmons effectively ceased operations in December 2001. A provision for restructuring and closure costs of $461,000, which included severances and other costs, was provided as at December 31, 2001.

During December 1999, Simmons decided to close the Prairie division and transfer its operations to the Alberta and Ontario divisions. The Prairie division ceased operations in November 2000. A provision for restructuring and closure costs of $1,075,000, which included severances and other costs, was provided as at December 31, 1999. During 2000, a further $541,000 of expenses for equipment and employee moving and other costs was incurred.

13. Financial instruments:

(a) Interest rate risk:

Simmons has exposure to interest rate risk as its credit facility (note 7) is subject to a floating interest rate based on the prime rate of a major Canadian chartered bank plus 1/2% to 3/4%.

(b) Credit risk:

(i) At December 31, 2001, Simmons' four major customers accounted for 55% (2000 - 58%) of the outstanding accounts receivable balances and 54% (2000 - 56%) of revenue.

Credit risk is controlled by establishing and monitoring customers based on approved credit limits. Anticipated bad debts have been provided for in an allowance for doubtful accounts.

(ii) Simmons is also exposed to credit risk in the event of non-performance by its counterparty to the foreign exchange contracts (note 13(c)). Simmons' risk is mitigated by dealing with a counterparty that is a major Canadian chartered bank.

(c) Foreign exchange risk:

Simmons enters into U.S. dollar future exchange contracts to manage its exposure to currency rate fluctuations. Simmons accounts for its U.S. dollar future exchange contracts on an off-balance sheet basis. The outstanding U.S. dollar exchange contracts are as follows:

Notional amount	U.S. $ 7,200
Average contract rate to buy U.S. $1.00	$ 1.5668
Maturity dates	January 14, 2002 to November 18, 2002

(d) Fair values:

The carrying values of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and distributions payable to unitholders approximate their fair values due to the short-term maturities of these instruments.

The carrying value of long-term accounts receivable approximates its fair value.

The carrying value of the term loan approximates its fair value since interest is subject to a floating interest rate.

The fair values of capital lease obligations are estimated using discounted cash flow analysis based on Simmons' current incremental borrowing rates for similar types of arrangements. The carrying values of capital lease obligations approximate their fair values.

The fair values of the outstanding U.S. dollar exchange contracts are estimated as the amount of any gains or losses that would result if settlement were to take place at the balance sheet date.

Carrying value	$ –
Fair value – settlement gain	185

Corporate Directory

Directors of Simmons Canada Inc.

Brian M. Anderson

John B. Newman (1)(2)(3)

Randall G. Provost (1)(2)(3)

E. Duff Scott (1)(2)(3)

Patrick S. Thody (2)

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Corporate Governance Committee

Senior Officers of Simmons Canada Inc.

Patrick S. Thody
Chairman and Chief Executive Officer

Terence H. Pace
President and Chief Operating Officer

Brian M. Anderson
Senior Vice-President and Chief Financial Officer

Gerald T. Costigan
Vice-President - Finance

Ronald W. Dennis
Vice-President - Marketing

David C. Puttock
Vice-President - Human Resources

Corporate Office

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Stock Listing

Toronto Stock Exchange

Trust Unit Symbol

"SMN.UN"

Trustee

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Registrar and Transfer Agent

Computershare Trust Company of Canada
100 University Avenue, Toronto, Ontario

Unitholder Enquiries

Brian M. Anderson
Telephone: 905-671-1033

General Counsel

Davies Ward Phillips & Vineberg LLP,
Toronto, Ontario

Auditor

KPMG LLP, Toronto, Ontario

Operations

Factory with Showroom and Sales Office

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Regina, Saskatchewan

Showroom

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